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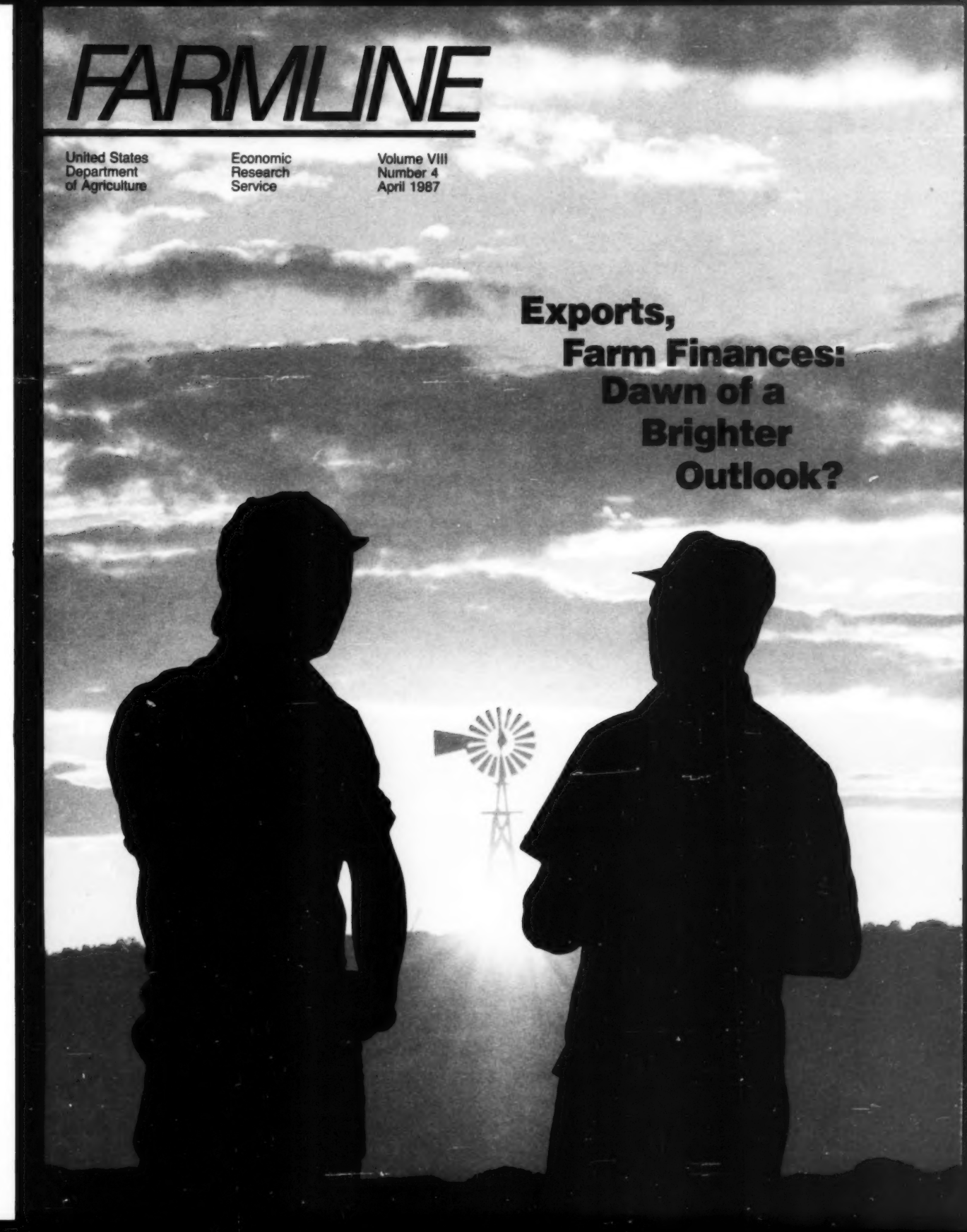
Exports, Farm Finances: Dawn of a Brighter Outlook?



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FEATURES

For Exports: Renewed Growth, Modest Expectations *by Doug Martinez* 3

The expectations are modest compared with the 1970's, but U.S. agricultural exports may now be back on the growth track after 6 straight years of decline. A more competitive U.S. trade posture seems to be paying off, according to economists. The tougher task is still ahead: revitalizing world demand so exporters aren't battling for shares of a stagnant market.

For Farm Finances: Promising Signs of a Cooling Crisis *by Juliana King* 6

It's a fragile outlook to be sure, replete with uncertainties and exceptions, especially for farm lenders. Even so, analysts are starting to talk about turning the corner, greater stability, and an easing of stress on the farm. Behind the cautious optimism are six promising signs that the prolonged crisis may finally be cooling.

How the Crisis Will—and Won't—Change U.S. Agriculture *by Dave Harrington* 10

How is the farm crisis likely to affect U.S. agriculture? In this article, economist Dave Harrington examines concerns about people and resources leaving the sector, future food supplies, and trends in farm size and the concentration of production. His appraisal suggests that some concerns may be exaggerated, while others may be real.

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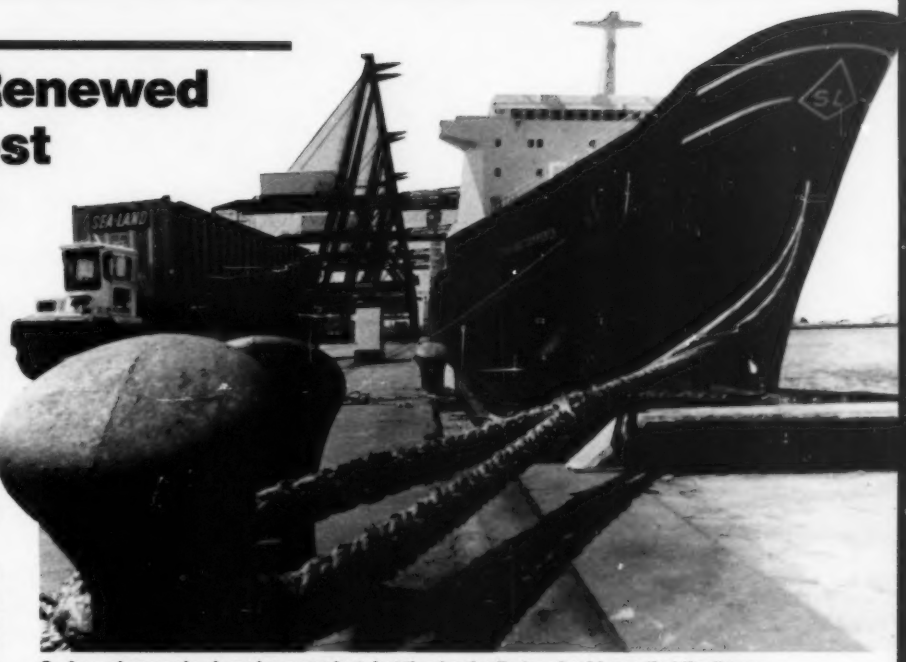
For Exports: Renewed Growth, Modest Expectations



So far, volume gains have been modest, but they're the first real evidence that the 6-year decline has finally been turned around.

Paced by population growth and modest gains in the global economy, the volume of U.S. farm exports is expected to rise over the next several years, following 6 straight years of decline.

But this prospective boost to America's farm sector shouldn't be seen as a springboard to the speedy growth of the 1970's—when U.S. export tonnage climbed an average of 10 percent a year.

Instead, says economist John Dunmore of USDA's Economic Research Service, the next few years should be likened more to the 1950's and 1960's when the volume of U.S. agricultural exports typically grew 5 to 6 percent per year. In fact, current assessments suggest somewhat slower volume increases of around 3 to 4 percent over the next several years, say ERS analysts.

Along with growth in population and purchasing power (in some countries, at least), there's another reason for the export gain, Dunmore says. It's the new push-pull factor at work in the world's competitive export environment.

Lowered U.S. loan rates for major commodities have pushed down prices—and helped pull up the volume of U.S. exports. This year, the United States is expected to ship three times as much cotton as in fiscal 1986 and about 6 percent more wheat. Overall, farm export volume could rise 4 million metric tons or more from the 110 million last year, based on USDA's mid-February forecast.

Although export earnings are unlikely to increase this year because of sharply lower prices for many commodities, the 1985 farm bill seems to be achieving at least one of its key objectives, according to Dunmore. Combined with a weaker dollar on world currency markets, the legislation has improved the international competitiveness of U.S. farm products and reversed the erosion in the U.S. market share for several commodities.

The so far still-modest gains for U.S. farm exports are noteworthy, he says, because "they're the first real evidence that the decline has been turned around." And there are also some encouraging signs that the more competitive U.S. posture will have a significant influence on production policies abroad.

U.S. Changes Make Waves

"Our change in farm policy is prompting other countries to begin to ease off on their production," says Dunmore. "High U.S. prices that were maintained well above world prices in the early 1980's encouraged other nations to make substantial investments in their agriculture to increase their output."

This happened, he says, even in nations such as Saudi Arabia, where climate and growing conditions do not give them a comparative advantage in producing basic commodities like grains. Agricultural investments in such countries as France, the United Kingdom, and China added significantly to their productivity rates.

"In these countries, the rates of growth in agricultural productivity far exceed American farm productivity growth rates," says Dunmore.

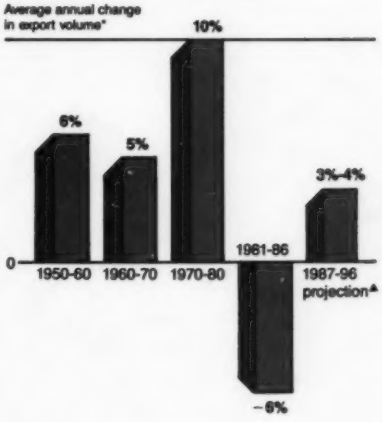
With lower world prices for many basic commodities, though, the level of investment that created this growth appears to be falling off. That means, of course, that rates of growth in output may fall as well.

"The EC, for example, is now under intense pressure to rein in the high support prices paid to its farmers," says Dunmore. "It's already taken some strong action, such as reducing dairy quotas, and is even talking about acreage controls."

Yet Dunmore adds a few cautionary words against the assumption that strong U.S. export growth is inevitable.

"American agriculture is abundantly endowed with fertile soil and favorable cli-

U.S. Farm Exports Are Projected To Grow an Average of 3 to 4 Percent Per Year in the Next 10 Years



*Figures measure an average of annual percentage changes in U.S. export volume for years shown. ▲Economic Research Service projection.

matic conditions, but this accounts for only part of our comparative production advantage. Much more rests on cumulative investments that have been made in agricultural research and extension," Dunmore says.

He explains that half a century ago, there was little difference in crop yields among the United States, England, India, and Argentina.

"Then," he says, "our yields began to shoot upward. U.S. agricultural productivity grew faster than that in other countries. More than anything else, this accounts for the expansion in U.S. farm exports compared with other suppliers. More recently, many other nations have caught on to the source of our growth."

Over the last 15 years, he adds, a host of other nations have substantially increased their assistance to agricultural producers through research and development investments.

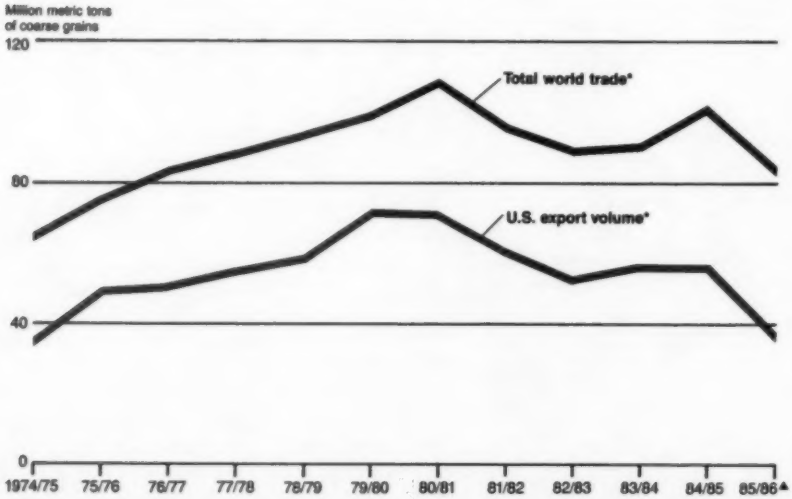
"Although such investments may be slowing now, they have had the practical effect of closing the agricultural productivity gap between the United States and other countries," says Dunmore. "Consequently, we need to keep investing to maintain productivity growth and remain competitive."

The task of revitalizing foreign markets will be more difficult than competing for market shares.

Revitalizing Our Markets

U.S. agricultural exports slid from a fiscal 1980 peak of nearly 164 million metric tons to a virtual valley of 110 million tons in fiscal 1986. Part of the problem was a decline in U.S. competitiveness related to high U.S. prices, a strong dollar, increased foreign output, and other factors. But another major part of the problem was slowed growth, and even some significant declines, in world markets.

A Weak World Market Has Been the Major Problem for U.S. Coarse Grain Exports in the 1980's



*Data from USDA's Foreign Agricultural Service. Years do not coincide exactly for world trade data and U.S. export data. World trade data exclude intra-EC trade. ▲Preliminary.

World wheat trade (excluding intra-EC trade) was only 85 million tons in 1985/86, the lowest level since 1978/79. World trade in coarse grains sank to the lowest point since 1975/76. At the same time, world stocks of these commodities rose to record levels. So, while the United States must remain competitive, expanding the U.S. share of a shrinking or stagnant world market is no solution to the U.S. agricultural surplus, says Dunmore.

Debt-laden developing countries—the largest potential markets for the United States and other exporting nations—are precisely the ones where economies are most troubled.

"With economies in some of these countries contracting, and others showing no growth at all, Third World nations have little foreign exchange left to pay for imports once debt-service obligations have been met," Dunmore says. "Because they don't have the foreign exchange to invest in the development process, they haven't been able to sustain previous growth rates."

The task of helping to revitalize foreign markets will be more difficult and less certain than effectively competing for market shares, but the United States can play a potentially important role.

One effort in this regard is already under way—the new round of GATT negotiations in Geneva, Switzerland. Most of the world's major trading nations are members of the General Agreement on Tariffs and Trade (GATT), which regulates about four-fifths of the world's trade. Since its founding more than 40 years ago, GATT has trimmed tariffs around the world in an attempt to allow the freer flow of commerce.

The current round of trade talks focuses on continuing that process, bringing agriculture more fully under GATT rules, and targeting nontariff barriers and other restrictive trade measures for removal or reduction.

"We need to give due consideration to trade relations between the United States and developing countries," says Dunmore. "Markets for their primary products must be

A Look Ahead by Products and Markets

Although they are quick to point out the high level of uncertainty associated with longer term assessments, Economic Research Service analysts have looked ahead over the next several years. Their current appraisal of the export prospects for major commodities shapes up as follows:

• *Grains.* By the end of this decade, total export volume of U.S. grains could return to the levels of the late 1970's, buoyed both by moderate demand growth and competitive U.S. prices. A competitive pricing policy will expand the U.S. trade share and reduce the incentive for foreign suppliers and customers to continue to increase output. The expectations of export gains, however, are tempered by the fact that increasing U.S. productivity and large existing stocks will require heavy reliance on acreage reduction programs throughout this period—if world and U.S. grain markets are to shift toward a balance in supply and demand.

Trade prospects look most favorable in East Asia (mainly South Korea and Taiwan), where consumption and imports have doubled over the last decade; in North Africa and the Middle East (notably Saudi Arabia), where imports have risen more than threefold during the last 10 years; and in parts of South America and Mexico, where consumption is expected to continue outpacing production.

As a group, most of the centrally planned economies—the Soviet Union and Eastern Europe—probably won't contribute much to the growth of global grain markets, say USDA analysts. Weather-related fluctuations in production will continue to cause year-to-year variations in Soviet grain imports. However, a diversified program, including changes in management, economic, and agronomic practices, may renew growth in USSR grain production and thus decrease grain imports. The special priority being placed on production of high-quality wheat and the continued priority placed on increasing meat production may cause the USSR to import more coarse grains than wheat, reversing the pattern of the last 5 years.

In China, the wheat outlook is much the same as that for the Soviet Union. China is enjoying greater self-sufficiency in wheat. In coarse grains, rising production and internal transportation problems have turned China into a net exporter. Increased livestock product demand and industrial use eventually could change China back into a net importer—but that may be a few years away.

In most industrialized countries, production levels have far surpassed self-sufficiency levels. In the 1970's, the European Community was a large net *importer* of grain. Net EC grain imports in the mid-1970's were about 25 million tons, fully a fifth of world trade. A decade later, that situation had switched dramatically. The EC was a net grain *exporter* of 15 million tons. In other words, the size of the world market available to the United States was reduced by 40 million tons over that period. And with its heavily subsidized production and stagnant internal demand, the EC should remain a large grain exporter and keen competitor.

• *Cotton and Rice.* Here, the export picture is brightest for cotton. Cotton and rice exports are rebounding sharply this year because of marketing loan provisions that make U.S. prices competitive in world markets. But cotton may carry its recovery even further. Prices of U.S. cotton are now below manmade fibers, and consumer preference for cotton is likely to push global demand upward. With greater domestic use and small gains in farm productivity, the U.S. cotton market is moving quickly toward a better supply-and-demand balance.

Rice exports, on the other hand, will probably be limited by the slow growth in world trade, and partly offset as well by farm productivity gains. Rice stocks may decline more slowly, forcing continued reliance on acreage reduction programs.

• *Soybeans.* The steady increases in U.S. acreage during the 1960's and 1970's probably won't be repeated. U.S. soybean and soybean meal exports will be constrained by moderate increases in global livestock production and greater oilseed and protein meal production in South America and Europe. Although unprocessed U.S. soybeans could hold on to 75 to 80 percent of a slowly growing world trade market, the American soybean meal share could drop slightly under more intense competition.

open to them around the world or they won't have money for our products. This is all the more reason to bring them into the fold, to make them an integral part of GATT."

And U.S. officials may be able to do more than that, Dunmore says. For example, aiding developing countries to more fully develop their agricultural sectors can end up benefiting American farmers.

Although that may seem to be a contradiction, it is only by the growth of their farm sectors that many developing countries will find a way out of their economic woes. As the largest sector of the economy in many Third World nations, agriculture largely determines whether these nations will grow economically, says Dunmore.

Higher incomes typically lead to increased consumption. Diets become richer and more varied, and meat begins to appear on the table more often.

"That, in turn, can lead into the production of meat which relies on feed grains and protein meal. These are commodities that the United States and other exporters can supply," says Dunmore. The United States can also supply many of the other items—fruits and vegetables, and processed foods—that make up a more varied diet.

Given these prospects, U.S. exports may continue to grow well into the future if developing countries can work their way out of debt and show much more positive rates of economic growth. "However, at the present time, U.S. export growth in the 3 to 4 percent range appears most likely," Dunmore says.

That may or may not be enough to fully absorb the productive capacity of American agriculture and eliminate current surpluses. Certainly, it would not be if major breakthroughs in biotechnology—such as those involving dairy production—are soon realized.

But a steady, if slower rate of export growth than we saw in the 1970's would certainly add some stability to a sector that has seen its share of feast and famine in the last two decades. □

[Based primarily on information provided by economist John Dunmore of the International Economics Division, Economic Research Service.]

For Farm Finances: Promising Signs of a Cooling Crisis

Although the farm crisis is by no means over, evidence is growing that U.S. agriculture is turning the corner and starting on what may be a long, slow road to recovery.

In a major review of the farm sector's financial situation, analysts with USDA's Economic Research Service note that conditions appear to be stabilizing after a decade of dramatic upswings followed by about 5 years of deepening economic stress.

"There is reason to believe U.S. farmers are on a somewhat firmer footing than they were 2 or 3 years ago," says Jerome Stam, the economist who coordinated the review. In other words, 1985-86 may have marked a turning point. The analysts see it as a possible transition period from the difficult adjustments of 1981-84, through the drastic downward revisions in export expectations, and into a period of greater stability, regrouping, and slow improvement that could characterize 1987 and beyond.

But their words—"somewhat firmer," "possible transition," and "slow improvement"—are chosen carefully, emphasizing the uncertainties.

"It may take *at least* 2 more years of major debt reduction, accompanied by continued large federal outlays, to put U.S. agriculture in a more solidly competitive, financially stable position," says economist Greg Hanson, one of Stam's ERS colleagues.

And this fragile outlook, replete with unknowns that could ultimately make or break a farm recovery, is not universal for the sector. There are exceptions to the overall picture.

In the Southeast and Southern Plains, for example, financial conditions, aggravated by the 1986 drought, are deteriorating even further. Moreover, there's a natural lag as economic stress is transmitted from farmers to their lenders. Thus, the wave of financial difficulties that crested on farmers in 1985 and 1986 is now hitting those who hold their debts. For farm lenders as a group, 1987 could be the worst of several "years of reckoning."

Signs of Strength

Despite the continuing concerns and uncertainties, the analysts point to several broad signs of an improving farm economy. Improvements, they say, can be found in at least six key areas:

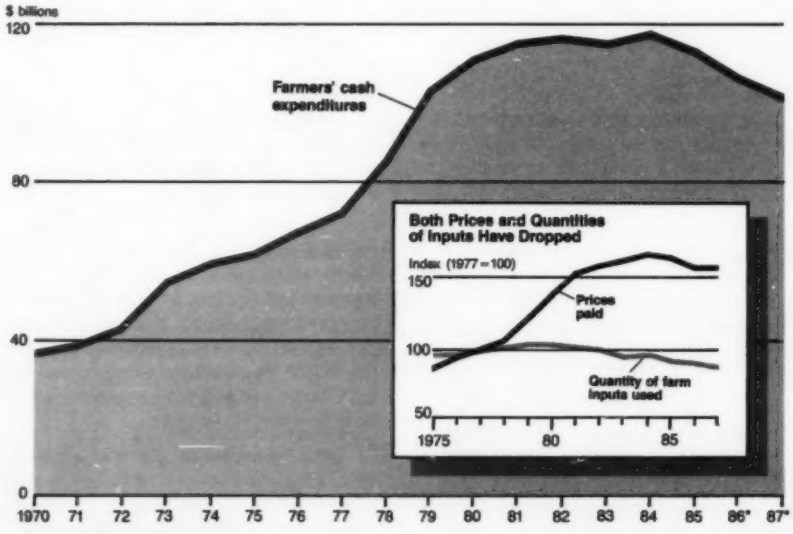
- *Returns on farm assets.* While the decline in farm asset values hasn't ended, it has reached the point where current returns on assets—annual income as a percentage of asset value—rose to a favorable 3 percent in 1986. (Income returns on assets averaged 4.8 percent in 1970-74, 2.7 percent in 1975-79, and a weak 1.9 percent in 1980-84.) In 1987, the total return on assets, which includes changes in asset values along with current income, is expected to be positive for the first time since 1980, says Hanson.

- *Farmland values.* The rate of decline in farm real estate values has slowed. Farmland values, which fell about 12 percent in both 1984 and 1985, dropped around 8 percent last year. Hanson indicates land prices are now stabilizing in some of the hardest hit areas in the Midwest. Such stabilization will be crucial, the economists say, because continued declines would shut down even more farming operations and further stress agriculture's financial sector.

- *Farm stability.* Although prospects remain bleak for farms with insufficient cash flow to cover their debt payments, slippage of farms from financial strength to financial stress appears to have slowed. Many of the farms that were headed toward financial disaster have already reached that point, says Stam. "Now, the problem group is somewhat smaller, and it is many of the farm lenders, faced with absorbing the assets of failed farms, who are feeling the stress."

- *Declining costs.* The underlying cost structure of farming has undergone dramatic downward adjustments—both the price and quantity of inputs used by farmers are down, says Hanson. Cash expenses on the farm, led by declining energy prices, dropped by about $10 billion during the last

Declining Cash Expenditures Are Seen as a Healthy Sign of Adjustment to a Lower, More Competitive Cost Structure in Farming



*1986 preliminary; 1987 projected.

2 years to the lowest level since 1979. Interest costs have fallen $5 billion as a result of declining interest rates and overall reductions in outstanding debt. In 1987, these costs are expected to drop another 2 to 4 percent, making this the fifth consecutive year of decline. The industry in general has benefited from these lower expenses, but livestock and poultry producers have had an additional boost from lower grain and feed costs.

• *Farm income.* Farm income has also improved, primarily due to large federal payments. Between 1985-87, a period when farm cash receipts fell 12 percent, net cash income was surprisingly strong, say the economists. It is important to note that direct government payments have risen $7 to $8 billion since 1985. Such payments likely totaled $12 to $13 billion in 1986 and could possibly hit $15 to $16 billion this year, says Hanson. These outlays have become critical to farm income maintenance, according to the analysts. This year, fueled by the government supports and a projected rise of 3 to 4 percent in real Gross National Product, farm income could grow 7 to 9 percent, they say.

But distribution of this income has shifted. In 1985, crop farms accounted for 61 percent of farm net cash income. In 1986, they accounted for only 53 percent, and their share "may decline to 51 percent in 1987," says Hanson. Much of the increase in income in the next few years will come from livestock and poultry as producers take advantage of low feed grain prices and a slightly strengthened market for meats.

• *Lower U.S. dollar.* The exchange rate of the U.S. dollar has dropped to more competitive levels on world currency markets. The forecasters predict that in response to more competitively priced U.S. commodities, the volume of U.S. agricultural exports will rise slightly in 1987, breaking a 6-year decline.

Together, these signs of improvement present a strong case underlying the current optimism, according to the economists.

Ironically, the problems of the 1980's stem partially from the investment and finance

Further improvement probably depends on yields, production costs, interest rates, exports, and federal supports.

trends of the prosperous 1970's, says Hanson. During that decade, the declining U.S. dollar and the tremendous growth of U.S. grain exports pushed net farm income, adjusted to 1982 dollars, to more than $35 billion for 6 of the years between 1972 and 1979. The trends made it appear that the boom in agriculture was here to stay.

The prolonged expansion fostered high expectations of continued growth, expectations that were not realized. During that 8-year period, farmers and other investors bid land prices up 235 percent, says Hanson. Lenders opened their vaults to producers who wanted to expand their land holdings, update their machinery and equipment, increase their herds and flocks, and improve their facilities.

However, this growth eventually weakened the ability of U.S. agriculture to produce products at competitive prices. And the industry "entered the 1980's with an inflated cost structure, a burdensome debt load pushing rapidly toward $200 billion, huge production capacity, and a critical dependence on sustained growth in export demand," says Hanson.

The early 1980's were financially devastating for many producers. Demand for U.S. exports plummeted, inflation soared, and severe droughts hit the Midwest and continued throughout parts of the South. Many farmers had trouble securing investment and operating capital because lenders, who had fueled the asset buying spree of the 1970's with large increases in capital, grew wary of lending more money to financially strapped farmers.

"The slide in U.S. agriculture really began in 1981. By 1982, we were aware we had a problem," Stam says. By 1984, the crisis, exemplified by the failure of many farms, stretched into all aspects of rural life.

A financial reversal that had seemed nearly unthinkable—and one that many forecasters assumed would quickly fade—turned into a prolonged crisis. Even now, after around 5 deeply troubled years for U.S. agriculture, no one expects the road ahead to be either straight or smooth.

Continued Uncertainties

Continued improvement in the farm sector probably depends on a combination of good yields, continued low production costs, low interest rates, export growth, and strong federal supports, says Stam. Without these, the survival and prosperity of many individual farmers will be a greater problem, he warns.

"The sheer size of government payments makes them a core component of the outlook for farm income," analyst Hanson adds. But many in the industry are concerned about the permanence of the federal support, and this uncertainty is affecting investor and farmer confidence.

Other major problems remain. The huge commodity stocks will continue to hold down farm prices for many crops, and marginal or indebted farmers will still have difficulty obtaining loans. And even though farm debt is falling, so are asset values (real estate values may decline another $25-$40 billion, say the analysts).

Furthermore, not all areas of agriculture have experienced relief. Producers and lenders in the big oil and energy states in the South and Southwest have not only had the agricultural crisis complicated by severe drought, but also by the recessions in the oil, energy, and mining industries.

Agricultural lenders, particularly the Farm Credit System and FmHA, are facing a difficult year. And although the troubles of agricultural banks seem to have peaked, there are still more than 150 of these banks without enough capital to cover their problem loans.

Given the problems that remain, no one expects a dramatic turnaround in the fortunes of the farm sector, the financial institutions that help support it, or the rural communities that depend on it. Neverthe-

(continued on page 12)

Wheat's Ticket to the Tropics

The potential for renewed, long-term growth in world wheat imports may be greatest where the sun shines hottest—in the tropics.

Like many other less developed countries, the tropical nations have a growing appetite for wheat, says economist Gary Vocke, a specialist in international development with USDA's Economic Research Service. What sets the tropical nations apart, he explains, are temperature, rainfall, plant disease, and soil conditions that severely limit their prospects for cost-efficient, large-scale wheat production.

The tropical belt stretches around the globe, blanketing the area between the Tropic of Cancer (more than 1,500 miles north of the equator) and the Tropic of Capricorn (the same distance to the south). Within its boundaries are Central America, a major portion of South America, Southeast Asia, and at least two-thirds of Africa. Climates range from rain forest to desert.

Excluding India, Mexico, and Australia at its outermost edges, the tropics embrace around four dozen countries with a combined population approaching one billion. Although a large percentage of the population is very poor, dietary trends have followed a pattern that's fairly standard throughout most of the Third World.

"Over the years, food demand has been shifting steadily away from roots, tubers, and coarse grains toward wheat and rice. This shift occurs as these countries experience economic growth, rising incomes, and an influx of people into urban areas," Vocke says.

Wheat fits particularly well into an urban setting, he adds. Breads and other baked goods can last several days without refrigeration, and they are ready to buy and consume, a convenience that seems to appeal to city people everywhere. Also, wheat flour can be turned into a variety of products to suit local tastes, from breads of all descriptions to crackers, noodles, and pastries.

Wheat's special appeal hasn't gone unnoticed in the tropics, where little wheat is grown and most of the increased consumption has been supplied by imports.

"Since the early 1960's, wheat consumption has risen at an annual rate of 4.2 percent in tropical Africa and Asia and 1.6 percent in tropical Latin America," says Vocke. "These tropical countries import about one-third of all the wheat imported by the world's less developed countries, and more than 80 percent of the wheat they consume is imported."

Large wheat importers in the tropics include Nigeria, Sudan, Brazil, Peru, Venezuela, Colombia, Malaysia, Vietnam, Bangladesh, Indonesia, and the Philippines. The United States is a major wheat supplier for most of them.

Although Vocke is optimistic about further growth in the tropical wheat market, he also recognizes the strong pressures in many of these countries to curtail imports. The pressures stem from debt repayment problems, depressed export earnings, stagnant economies, and the resulting lack of foreign exchange needed to purchase imports.

At least part of the blame, Vocke says, belongs to the trade restrictions and the often erratic credit and economic policies of the industrialized nations. Thus, the threat to continued market growth is primarily on the demand side: If these countries can't earn enough foreign exchange or obtain credit, they can't buy more wheat.

He is less concerned about the threat that tropical nations will follow the lead of some other Third World countries—notably India, Pakistan, and Turkey—in meeting internal demand largely with their own internal production. Despite the appeal of self-sufficiency, this strategy is unlikely to succeed in the tropics, he claims.

On paper, the potential for wheat production in the tropics is huge. In practice, production is limited mostly to the higher elevations, where temperatures are cooler. At lower elevations, heat-reduced yields are too low for profitable, large-scale production—and heat isn't the only obstacle.

In Brazil, for example, wheat is produced mainly in areas south of the Tropic of Capricorn. For production in the tropical north, wheat would have to withstand heat and humidity, as well as highly acidic soils, which further reduce yields. If these problems could be overcome, roughly 30 million additional acres in Brazil might be suitable for wheat production, and similar soils are found in Africa and Southeast Asia.

"Many of these countries have research projects to develop new heat-tolerant varieties of wheat and cropping practices suitable to tropical environments. So far, though, researchers have made little progress in developing suitable varieties for commercial production," Vocke says.

In Asia, millions of acres of rice paddies are idle during the cooler dry season, and researchers there are looking for varieties, cropping practices, and soil management techniques that would allow successful double-cropping of wheat and rice. Here, too, no workable solution has been found, Vocke observes.

In spite of the unappetizing economics, some nations have plunged ahead with plans to increase their wheat self-sufficiency. Their experience should not encourage a crowd of imitators. In Nigeria and arid Sudan, large capital investments in irrigation have permitted wheat production, but at a very high cost—much higher, Vocke points out, than the cost of importing wheat at today's low prices.

One major exception is Bangladesh, where wheat production is being gradually and, so far, successfully introduced. Like India, though, the country is sitting on the northernmost border of the tropics, and its climate is more moderate than many nations nearer to the equator.

"Without a major breakthrough resulting in a new, high-yielding wheat variety suited to tropical climates and acidic soils, production will probably remain very limited in most of the tropical nations," Vocke says. "Their yields are so low and the required investments in wheat production are so high that it is actually cheaper for them to import wheat than to grow it themselves."

Even at current prices, however, they need to earn foreign exchange to buy wheat.

"If debt payments take most of their foreign exchange or if they can't earn enough selling their products to the industrialized nations, many tropical countries will have to limit their wheat imports," Vocke maintains.

"On the other hand, if they can sell their products on world markets at reasonable prices, if their economies grow and incomes rise, urbanization will continue and U.S. wheat producers should find growing markets in the tropics far into the future."

A Priority on Pushing Exports

When the National Commission on Agricultural Trade and Export Policy released its final report earlier this year, it presented some 300 recommendations on how the U.S. government can help to expand American farm exports.

But all of them follow from one simple fact, notes the commission's executive director.

"The whole point of that report, of all our recommendations, is that there isn't enough focus directed to pushing exports," says Jimmy Minyard, who went from his post as assistant administrator for commodity marketing programs at USDA's Foreign Agricultural Service to the export commission in January 1985.

In the report, the commission provided several broad policy recommendations on how the U.S. government could boost the country's farm export position.

The commission calls for aggressive action to meet and counteract the effects of unfair foreign trade practices and the use of all existing tools to expand markets for U.S. agricultural products.

It also calls for improving the management of economic policies that may affect agricultural trade (such as reducing the federal budget deficit) and placing more emphasis on value-added and high-value products—including processed foods, meats, and fruits and vegetables.

Moreover, the commission recommends a "reorientation of food aid and economic assistance to serve long-term market development objectives, with substantial reliance on policies designed to promote private-sector and free market oriented growth in developing countries."

The commission also advises U.S. government officials to target markets with growth potential in Third World countries and to streamline decision-making in the agricultural policy process to better respond to farm trade needs.

Created by Congress in August 1984, the commission officially went out of business with the release of its report. It was composed of 35 persons, including 12 members of Congress and three high-ranking USDA officials. It held 15 meetings throughout the country, gathering facts and testimony on the export problem.

"Suggestions came from trade associations, individuals, and members of Congress," Minyard says. "We didn't start out with any preconceptions, but by the time we finished it was very clear that we have not done a very good job of marketing our farm products abroad."

Minyard says it became evident that U.S. export policy has been basically "reactive," rather than geared to creating opportunities and taking the initiative. "The report," he says, "addresses how we should turn that around and take a more aggressive, market-by-market approach to selling our farm exports. We have to determine what products might have potential in each particular market and then do the work necessary to build that potential."

Leaders . . .

Leading Commodities, Leading States in 1985 Cash Receipts from Farming

	State rankings and cash receipts				
	No. 1	No. 2	No. 3	No. 4	No. 5
Commodity rankings in cash receipts	*All figures in millions (000,000)*				
No. 1: Cattle and calves $28,742	Texas $4,104	Nebraska $3,328	Kansas $2,754	Iowa $1,749	Colorado $1,692
No. 2: Dairy products $18,135	Wis. $3,023	Calif. $2,076	New York $1,479	Penn. $1,311	Minn. $1,286
No. 3: Corn $16,031	Illinois $3,431	Iowa $2,660	Nebraska $1,891	Indiana $1,609	Minn. $1,072
No. 4: Soybeans $10,804	Illinois $1,933	Iowa $1,581	Indiana $930	Minn. $898	Ohio $826
No. 5: Hogs $8,940	Iowa $2,402	Illinois $993	Minn. $721	Indiana $705	Missouri $571
No. 6: Wheat $7,862	Kansas $1,378	N. Dak. $1,056	Oklahoma $578	Texas $559	Wash. $488
No. 7: Broilers $5,680	Arkansas $981	Georgia $796	Alabama $629	N. Car. $551	Missouri $418
No. 8: Greenhouse/nursery $5,459	Calif. $1,317	Florida $804	Texas $400	Penn. $278	Oregon $195
No. 9: Cotton $3,800	Texas $993	Calif. $977	Miss. $498	Arizona $315	La. $233
No. 10: Eggs $3,252	Calif. $336	Indiana $245	Georgia $235	Penn. $219	N. Car. $212

Data provided by economist Bob Williams of the Economic Research Service.

How the Crisis Will—and Won't—Change U.S. Agriculture

In the latest report to Congress on the status of the American family farm, Economic Research Service economists Dave Harrington and Tom Carlin discussed a wide range of issues. Among the questions they addressed were: Who is leaving farming? What is happening to their resources? And what does this imply for future food supplies, the future structure of farms, and the control of agriculture?

"Satisfactory answers," Harrington began, "are difficult because not enough is known about the most recent changes that have come along with the financial crisis."

After that cautionary note, Harrington went on to examine today's concerns about the loss of people and resources from farming. Here are some of the facts and observations he offered.

Most of the national information on farms and resources leaving the sector comes from an opinion survey of bankers. This survey, sponsored by the American Bankers Association, provides estimates of the percentage of farms going out of business and the percentage going through bankruptcy.

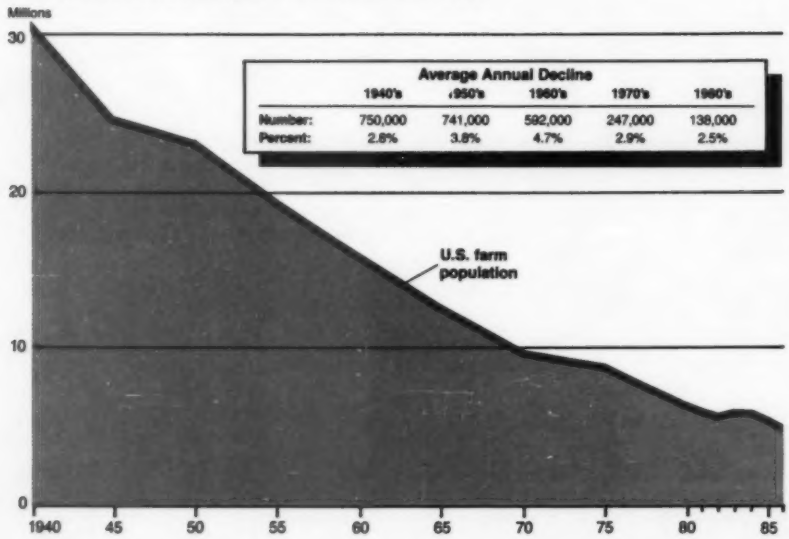
The results indicate that both percentages have increased annually since the first survey was taken for the year ending in June 1982. The same data show that bankruptcies and voluntary liquidations—as opposed to normal attrition—account for a growing but still-small share of the farms going out of business.

These findings are supported by some state surveys in the Midwest. Generally, these surveys showed that 3 to 6 percent of the farm respondents in each state expected to go out of business last year, about half of them for financial reasons.

The federal government does not maintain adequate, up-to-date figures on the rate and composition of farms leaving the sector. The latest Census of Agriculture data cover only 1982, a year before farmers felt the full effects of financial stress. Much more recent information on farm costs and returns is available from annual USDA surveys, but these surveys do not trace what's happening with specific farms or farmers from year to year.

Despite the limitations in the data available, we do have enough evidence to make several observations. The observations provide a historical context for the farm crisis and may help us assess its potential costs both to our agricultural sector and to American society.

Recent Declines in the Farm Population Look Modest by Historical Standards, But the Declines Are Coming from a Much Smaller Base.



Who Is Leaving Agriculture?

By the standards of the 1940's, 1950's, and 1960's, the number of people leaving farming now is modest. More than 30 million people lived on farms in 1940 as the Great Depression came to an end and the country entered a period of rapid economic change. The farm population made up nearly a quarter of the total U.S. population.

In the next 30 years, the farm population dropped by nearly 70 percent to less than 10 million. On average, roughly 700,000 people per year were leaving the farm. Today's losses in the farm population are much smaller. The total decline from 1980 to 1985 amounted to about 700,000.

Although recent declines appear modest by historical standards, they are coming from a substantially reduced farm population base. Moreover, the reasons behind the displacement of farmers have changed, and so have the characteristics and economic positions of those being displaced.

During the 1950's and 1960's, three main factors seemed to be responsible for the exodus from agriculture. Mechanization and other labor-saving innovations allowed a family to operate a much larger farm without additional labor. At the same time, a reduction in profit margins required individual farmers to increase their volume to maintain their net income. Finally, cities offered the attraction of better incomes, as well as other opportunities and comforts not always available in rural areas.

Those who left farming tended to be small, marginal producers or tenant farmers unable to mechanize or expand their farm businesses. Older operators retired, and the young were reluctant to choose agriculture as their primary profession.

Most of the resources of farmers leaving agriculture are bought by other farmers, but the crisis is squeezing midsize farms and spurring further growth and consolidation among the larger, better financed producers.

Today, by contrast, farmers quitting for financial reasons tend to operate larger, production-efficient farms. Many of them were considered progressive leaders in the farm community during the 1970's. They appear to be primarily young (under 40) and from the middle and upper middle segments of commercial agriculture.

Those leaving also have useful occupational and entrepreneurial skills, and many will try to remain in their home communities. Two decades ago, nonfarm job opportunities were more limited in rural areas, and losing the farm often meant migration from the community. That migration is less likely today, except in parts of the western Corn Belt and Northern Plains, areas where job opportunities off the farm are still relatively scarce.

Amidst these changes, there is a certain continuity. The overwhelming majority of the resources of farmers leaving agriculture are purchased and remain in production, usually without even a year's break. Almost 75 percent of all land changing ownership in 1985 was purchased by continuing farmers. The remainder was bought by retired farmers and some nonfarmers, who typically kept it in production as well.

Food Supplies and Farm Resources

For the consumer, then, there is little danger of the food supply being threatened by current changes in farm ownership. Some land that was marginal for crop production may revert to pasture, and some land may be lost to nonfarm uses. These land use changes, however, represent a very small proportion of the total land base and generally do not occur in the areas of greatest financial stress and farm turnover.

Yet the fact that the majority of purchasers are other farmers does suggest continued growth and concentration of production among the larger and better financed producers. As such, farm financial stress may hit the midsize group of farmers the hardest. Larger farmers tend to have higher yields, profits, and financial resources, and small farmers (those below the midsize group) usually get most of their income from off the farm.

This may intensify the existing trend toward an increasing number of large farms, a stable number of small, noncommercial farms, and a decline in traditional, family-size farms (here defined as those with annual sales of $40,000 to $250,000).

On the other hand, further consolidation does not mean that nonfarm investors, corporations, or foreign investors are taking over. In fact, the evidence indicates that land ownership by nonfarm investors, corporations, and foreign owners is extremely low and declining.

These investors were attracted largely by tax sheltering opportunities and expected capital gains on farmland investment. The decline in farmland values and the Tax Reform Act of 1986, which placed strict limits on tax shelters, eliminated the major attractions for nonfarm investors.

Corporate ownership of farmland (excluding family-held corporations) remains at about 1.6 percent of the total value of land and buildings in the farm sector. Foreign ownership is similarly low, at less than 1 percent. Retired farmers and heirs of farmers continue to dominate the ranks of those "nonfarmers" who own farmland.

When the current adjustment in agriculture ends, around 15 percent of those who were farming before 1980 will have gotten out of the sector for financial reasons—fewer than those who quit farming for normal reasons over the same period. The remaining farmers will emerge perhaps "bruised," but with their heads above water.

As measured by the value of its land and other assets, the farm sector will be substantially smaller than it was in the late 1970's. However, reductions in the physical quantities of its land, equipment, and facilities will not be great, and its production capacity will be largely intact. □

(continued from page 7)

less, the economists claim that some optimism is justified. The lower, more competitive cost structure in agriculture, signs that farmland values have started to level off, higher returns to investment in farming, and recent developments in exports and farm income offer hope, they say, that the situation is stabilizing.

You can't put hope in the bank, but for many farmers the evidence of improvement should be a welcome change after several years of steadily declining fortunes. □

For Many Lenders, the Worst May Not Be Over

The crisis in agricultural lending has lagged slightly behind that of the farm sector, but many rural banks, dependent on local prosperity, quickly felt the impact.

Since 1981, almost 200 commercial banks specializing in agricultural finance have failed, says ERS economist Greg Gajewski.

Problems at agricultural banks are concentrated geographically. In each of 12 heartland states, farm banks have above-average proportions of delinquent loans. The states—Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Wisconsin, and Wyoming—are in regions where farm banks make up a large share of the local banking system, says Gajewski.

"There are some early indications that delinquent farm loans at commercial banks may have peaked in mid-1986. Agricultural bank failures, however, could continue to be in the 60-75 per year range for the next several years," Gajewski says.

Lenders in the South, Midwest, and Northern Plains appear to be in the most trouble. Many in the Southeast not only had to absorb farm losses brought about by the national crisis but also losses resulting from last year's drought.

"The Farm Credit System and Farmers Home Administration are the dominant lenders in this region, and both bear the lion's share of southern farm loan losses," says economist Jerome Stam.

Of the several financing systems, the Farm Credit System (FCS) is the most severely affected. At the end of 1986, the FCS reported it had only $5 billion in loss reserves and surpluses to cover $12.8 billion in high risk loans.

The FCS has started to sell the approximately 2 million acres of land it has acquired. But many of the system's districts are trying to hold the line on farmland values by taking nothing less than a given parcel's current appraised value. Land that is not sold will be offered for lease.

The FCS is making other adjustments. For example, with congressional approval, the system switched to a new accounting system to help stabilize its deteriorating loan portfolio. The change was designed to help cut FCS losses by stemming the rate of foreclosures. However, analysts in and out of the government suggest this action is not enough, and further federal assistance is needed to save the lender.

USDA's Farmer's Home Administration appears the next most severely affected. According to FmHA, 32 percent of its farm loans and 23 percent of its principal and interest payments were delinquent as of Sept. 30, 1986. As of last fall, the federal loan agency, sometimes called the lender of last resort for farmers, owned a total of 1.4 million farm acres. Federal law, however, prohibits FmHA from selling the $841 million in real estate assets until foreclosed farmers have the opportunity to buy their land back. The lender did change its emphasis to guaranteeing loans issued by commercial banks and other creditors rather than providing direct financing to its customers. FmHA also introduced an interest rate buydown to allow creditors who temporarily cannot meet their debts to lower their obligations.

Other lenders have resisted selling their portion of the 14,000 foreclosed tracts that cover 4.4 million acres of farmland and are valued at $2.4 billion. Instead, in hope of higher prices or in fear of further depressing the market, they are holding on to the weakened assets, say the economists.

According to Stam, insurance companies, one of the historical sources of land investment capital, are also sitting tight on the estimated 600,000 acres of farmland they now own. They are employing in-house management services or outside specialists to get the most return on the unwanted assets by leasing them to financially solid farmers who want room to expand.

As financially troubled producers continue to re-adjust their operations, they will maintain pressure on repayment rates for some lenders. Nonperforming loans, delinquencies, defaults, write-offs, and acquired property will contribute to the deteriorating lender position.

In addition, farm credit institutions will have to compete for a lower volume of agricultural loans. This could benefit farmers with low to moderate debt levels—about 80 percent of all commercial farms—since competition between banks and other lending institutions will be keen.

Some banks, however, may raise interest rates or collateral requirements in an attempt to ease the high cost and risk of serving shaky farm borrowers. This could hurt the lenders in the longer run by driving financially sound borrowers to other credit sources.

REPORTS IN THE NEWS

Food Is Big Business

The U.S. food marketing system rang up an estimated $555 billion in sales last year and introduced 2,500 new products. To provide the raw foods for processing, filling grocery shelves, and serving in restaurants and institutions, the food marketing system spent around $85 billion on American agricultural commodities, $15 billion on foreign commodities, and $8 billion on seafood products.

This report reviews sales, employment, advertising, investment, and other key indicators of economic conditions in the food manufacturing, wholesaling, retailing, and foodservice sectors. In its pages, it also discusses industry trends and recent developments, including:

- A record 291 mergers took place among U.S. food processors in 1985, contributing to a continuing reduction in the number of firms. Three mergers were among the largest in history
- Food retailers continue to build larger supermarkets to accommodate separate deli, bakery, and seafood sections, new soup-and-salad bars, and additional space for household items, greeting cards, and flowers. Meanwhile, the number of food stores is dropping—down from about 267,000 in 1972 to 237,000 in 1986. The nation's top five food retailers, by 1985 sales, were Kroger Company, Safeway, American Stores Company, Winn-Dixie, and Southland Corporation.
- America's 712,000 restaurants, snack bars, and other eating places (including noncommercial institutions serving food) sold $168 billion worth of meals and snacks in 1985, up almost 6 percent from 1984. McDonald's was the sales leader, followed by Pillsbury Restaurant Group, Pepsi Cola Foodservice Division, Marriott Corporation, and Kentucky Fried Chicken.

Food Marketing Review, 1986 *by Anthony Gallo and others. (Published February 1987; 79 pages of text and tabular data; GPO Stock No. 001-019-00503-3; $4.25.)*

. . . With Big Farms To Match

While U.S. farm numbers gradually shrink, there's a sure and steady multiplication of farms at the upper end of the scale.

These *large-scale farms* with annual sales of $500,000 or more increased from 11,400 in 1974 to 27,800 in 1982. Inflation, which can push farms into higher sales classes, was responsible for only about one-third of this gain.

As their numbers grow, so does their role in agriculture—a role already far greater than their meager 1.2-percent share of all U.S. farms. In 1982, the large-scale farms controlled more than 10 percent of the land in farms and accounted for nearly 33 percent of the total value of U.S. farm production.

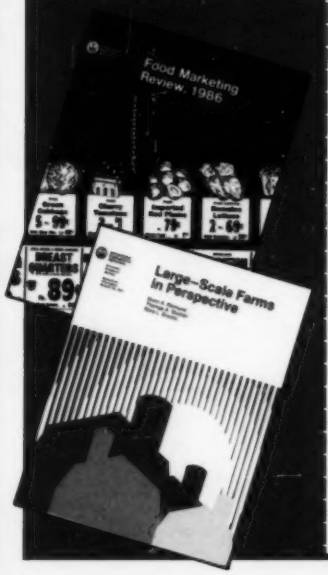
Contrary to popular belief, nonfamily corporations account for only 6 percent of the farms in this class. Almost 37 percent are corporations, but the majority of the corporations are family-held.

The average size of large-scale farms exceeded 3,700 acres in 1982, and the average value of their land and buildings was more than $3.3 million. Cattle feedlots, poultry operations, and high-value vegetables dominate the upper end of this category.

Continued growth in the number of large-scale farms is expected. According to this report, they have the ability to maintain net income, "withstand economic adversity," and "contain costs of production more effectively than smaller farms."

Still another strength is technological innovation. "Large-scale farms tend to operate at the forefront of technology and are usually the first to adopt new production and managerial techniques," say the authors.

Large-Scale Farms in Perspective *by Donn Reimund, Thomas Stucker, and Nora Brooks. (Published February 1987; 12 pages of text and tabular data; GPO Stock No. 001-019-00496-7; $1.25.)*



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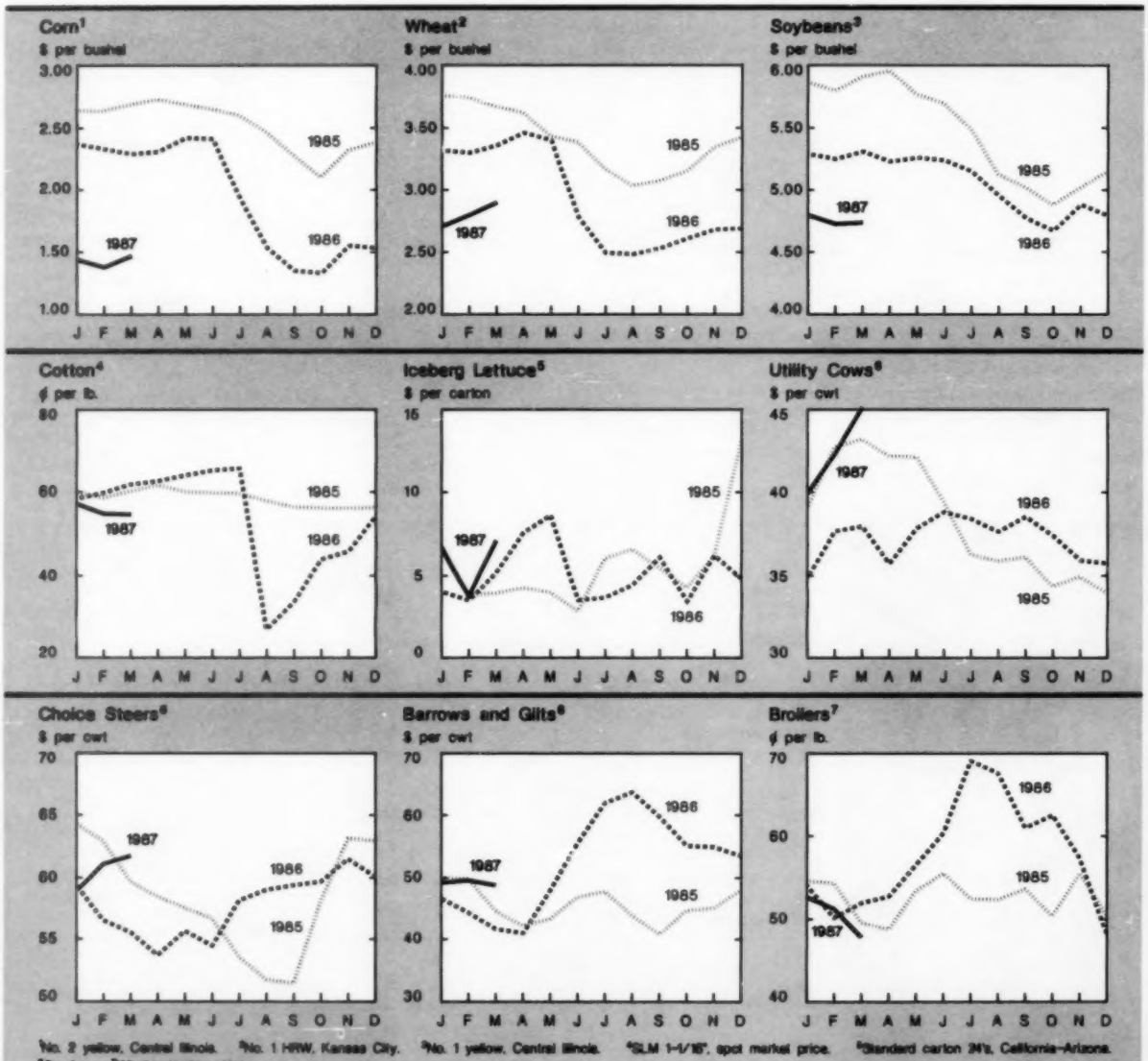
FARMLINE TRENDS

Monthly Price Monitor

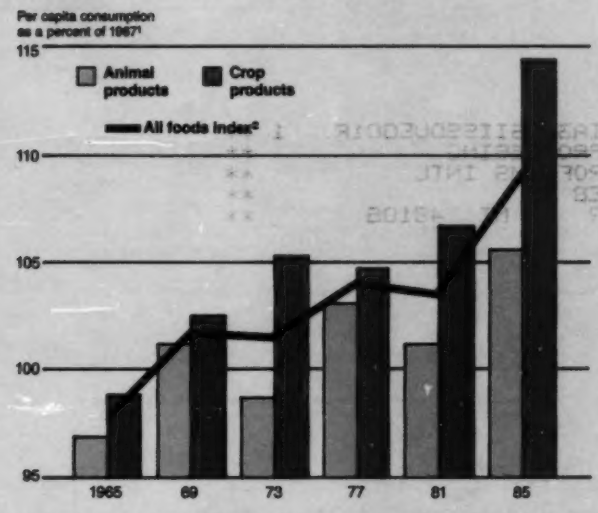
USDA's March index of farm prices was unchanged from February. Corn increased to $1.47 per bushel, and wheat prices rose for the seventh straight month, gaining 10¢ to $2.90. Soybeans, at $4.74 per bushel, and cotton, at 54.6¢ a pound, held fairly steady. In the meat animals area, utility cows jumped to $45.13 per cwt, up almost $3 since February and the highest price in years. Choice steers edged up to $61.73, the highest since December 1985. Barrows and gilts—at $48.82—lost 80¢, falling to the lowest price in 10 months. Broilers declined 3.5¢ per lb. to 47.8¢, the lowest since April 1983. All prices shown are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York.

America's Changing Menu

Americans Are Consuming More Food Per Person . . . With Crop-Based Foods Gaining at a Faster Rate Than Animal Products



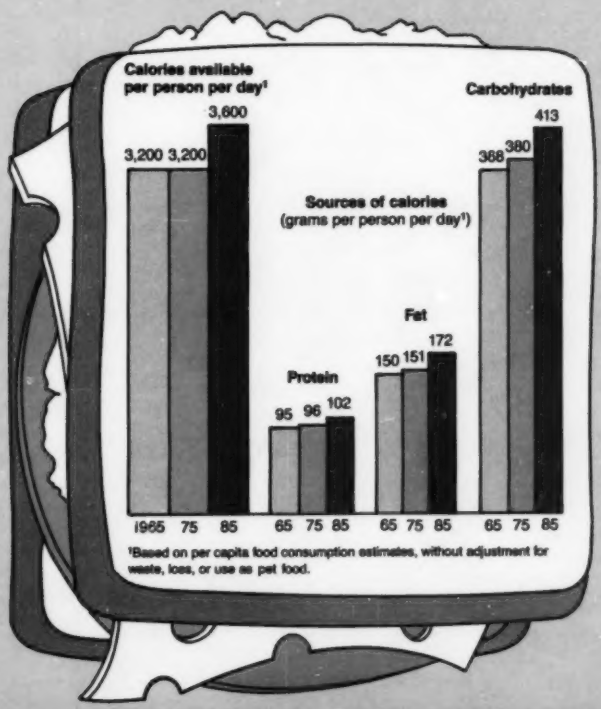
¹Quantities of individual foods on a retail-weight basis are combined into indices using constant retail prices as weights. Consumption data measure "use" of food products rather than what is actually eaten and include spoilage, waste, use for pet food, etc. ²Excludes some foods for which data are not available.

Consumption Figures Since 1965 Show Some Gainers . . . And Some Losers

	1965	1975	1985	Change, 1965 to 1985
	pounds per capita¹			percent
Some gainers				
Red meats	146.3	153.9	153.2	+5%
Lowfat milk & yogurt²	39.3	83.5	117.0	+198%
Corn sweeteners	18.2	34.2	87.5	+381%
Poultry	41.1	49.0	69.7	+70%
Soft drinks (gallons)	19.2	27.3	45.6	+137%
Fresh bananas	17.9	17.7	25.6	+43%
Salad and cooking oils	12.5	17.8	23.5	+88%
Cheese	9.8³	14.3	22.4	+129%
Frozen potatoes	7.2	13.7	21.2	+194%
Fresh onions	10.7	13.5	18.3	+71%
Fish	10.8	12.2	14.5	+34%
Pasta products	5.6	9.7	12.3	+120%
Fresh grapes	3.8	2.9	6.3	+66%
Fresh broccoli	0.3	0.9	2.6	+767%
Some losers				
Whole milk	246.0	177.7	120.8	−51%
Refined sugar	97.0	89.1	63.4	−35%
Fresh potatoes	65.2	52.4	49.9	−23%
Coffee (gallons)	36.3	31.3	25.9	−29%
Eggs (dozens)	26.1	23.0	21.3	−18%
Canned peaches	6.7	4.9	2.9	−57%
Lard	6.3	2.8	1.8	−71%

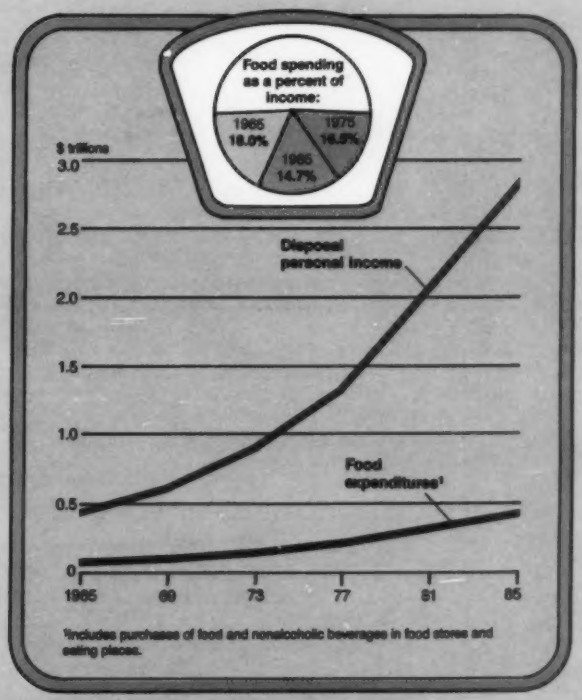
¹Retail-weight basis. ²Also includes skim, buttermilk, and flavored milk drinks. ³1966 data.

The Calorie Count Is Up, With Most of the Increase from Fats and Carbohydrates



¹Based on per capita food consumption estimates, without adjustment for waste, loss, or use as pet food.

But the Calories Are Getting Cheaper When Food Spending Is Measured Against Income



¹Includes purchases of food and nonalcoholic beverages in food stores and eating places.

Data from the report *Food Consumption, Prices, and Expenditures, 1985* compiled by economist Karen Bunch and published earlier this year by the Economic Research Service.

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